

2018/19

Statistics

Federal Financial
Supervisory Authority

Reinsurance undertakings

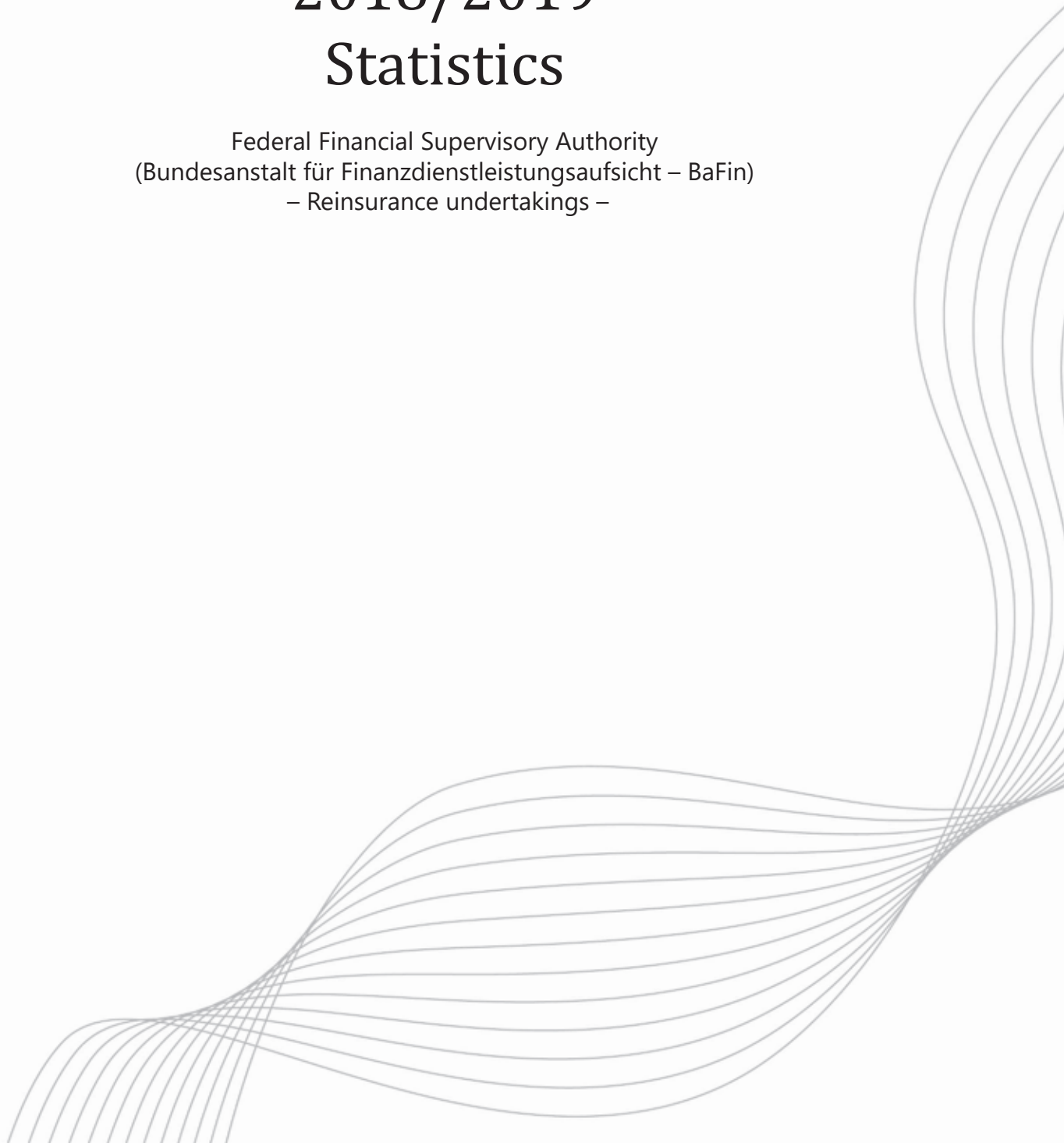


BaFin

Bundesanstalt für
Finanzdienstleistungsaufsicht

2018/2019 Statistics

Federal Financial Supervisory Authority
(Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin)
– Reinsurance undertakings –



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I

Reinsurance Supervision in 2019





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1 Reinsurance Supervision in 2019

1.1 Publications

1.1.1 Interpretative decision on finite reinsurance

In July 2019, BaFin published an interpretative decision on the distinction between finite reinsurance and traditional non-life reinsurance.¹

Background: under sentence 2 of Article 208(2) of Commission Delegated Regulation (EU) 2015/35, insurance undertakings must not take into account finite reinsurance, or similar arrangements, where effective risk transfer is comparable to that of finite reinsurance, for the purposes of determining the volume measures for premium and reserve risk or for the purposes of calculating undertaking-specific parameters. It is therefore necessary in non-life insurance to make a distinction between finite reinsurance and traditional non-life reinsurance with regard to risk transfer.

¹ www.bafin.de/dok/12733536.

Finite reinsurance is defined in section 167 (1) sentence 1 of the German Insurance Supervision Act (*Versicherungsaufsichtsgesetz – VAG*). Additional requirements are stipulated in the German Finite Reinsurance Regulation (*Finanzrückversicherungsverordnung – FinRVV*). Here, a distinction is made between finite reinsurance contracts and contracts without sufficient risk transfer. The Regulation does not, however, draw a distinction between finite reinsurance contracts and traditional reinsurance contracts. BaFin's interpretative decision serves as guidance on this topic and supplements the FinRVV.

1.1.2 Interpretative decision on the reinsurance business of primary insurance undertakings

In an interpretative decision published in July 2018, BaFin summarised the requirements applicable to German primary insurers conducting reinsurance business abroad². This interpretative decision deals with reinsurance operations conducted both in the European Union (EU)/the European Economic Area (EEA) and in third countries. BaFin has already addressed the matter of third countries in an interpretative decision published in 2010.

² www.bafin.de/dok/11251752.

Table 1: Number of reinsurance undertakings under BaFin's supervision

As at 31 December for the years 2015–2017 and as at 30 September for the years 2018–2019

	2019	2018	2017	2016	2015
Reinsurance undertakings with business activities	30	27	27	27	27
Reinsurance undertakings without business activities	2	3	5	5	5
EEA branches	5	7	6	6	6
Third-country branch	1	1	1	1	1

By addressing both aspects in a single publication BaFin intends to give primary insurers a comprehensive picture of reinsurance operations conducted abroad. With regard to reinsurance business within the EU/EEA, undertakings should in particular be aware of the fact that the notification requirements stipulated in sections 58 and 59 of the VAG also apply to undertakings commencing reinsurance activities in EU member states and EEA signatory states, irrespective of whether they intend to carry out primary and reinsurance business or reinsurance business only in this state.

1.1.3 Guidance notice for reinsurers from the USA

The EU and the USA have signed an agreement that makes it possible for reinsurers from the USA to carry out reinsurance business with primary insurance undertakings or reinsurance undertakings in the EU without them being required to set up a branch in the respective EU member state ("Bilateral Agreement between the European Union and the United States of America on prudential measures regarding insurance and reinsurance")³. This is only possible, however, if the reinsurer from the USA meets the requirements set out in the Agreement. US reinsurers must fulfil certain capital requirements as well as certain local risk-based capital requirements. Additionally, these reinsurers are required, among other things, to submit certain declarations to the insurance supervisory authority responsible for the ceding insurer. Following the initial submission, a reinsurer from the USA must observe the continuing information obligations set out in the Agreement.

In a guidance notice⁴ published in September 2019, BaFin gives an overview of the requirements reinsurers must fulfil to conduct reinsurance business in Germany

as well as information on the process for submitting the required documents. Here, a distinction is made between the initial submission and subsequent submissions.

1.2 Authorised reinsurance undertakings

In 2019, two new reinsurance undertakings commenced business operations, with one reinsurer accepting only risks from a group of undertakings that specialises in the run-off of life insurance portfolios. One reinsurer that was in liquidation until 2018 recommenced active business operations by writing new business. A French reinsurance group was restructured, reducing its number of German branches by two. As at the end of the third quarter of 2019, BaFin thus supervised a total of 38 reinsurance undertakings and branch offices of reinsurance undertakings (see Table 1).

1.3 Economic trends

In the first half of 2019, the level of claims expenditures for reinsurers was significantly lower than the thirty-year average. Estimates put overall economic losses caused by natural disasters in the first half of 2019 at US\$42 billion worldwide, see Table 2 ("Natural disasters in 2019 compared with the last ten years", page 9), which is significantly lower than the previous year's figure (US\$62 billion) and also below the average for the last thirty years (US\$69 billion)⁵. Of the overall economic losses caused by natural disasters in the first half of 2019, losses of US\$15 billion were insured, which is also lower than the previous year's figure (US\$23 billion) and the thirty-year average (US\$18 billion).

Of the insured losses caused by natural disasters in the first half of 2019, approximately US\$4.6 billion were

3 2016/2017 BaFin statistics – reinsurance undertakings, page 7.

4 www.bafin.de/dok/13008924.

5 Munich Re: Press release of 30 July 2019.

Table 2: Natural disasters in 2019 compared with the last ten years

Year	Number of events	Fatalities	Overall losses (US\$m)	Insured losses (US\$m)	Notable events
2019 (1st half)	? (370)	? (4,238)	? (42,000)	? (15,000)	Cyclone Idai, wildfires in Brazil and Siberia
2018 (1st half)	850 (460)	10,400 (4,341)	160,000 (62,000)	80,000 (23,000)	Winter storm Friederike, hurricanes Michael and Florence, typhoon Jebi, wildfires in California (Camp Fire)
2017 (1st half)	740 (380)	13,000 (5,540)	350,000 (65,000)	140,000 (25,500)	Hurricanes Harvey, Irma and Maria, earthquake in Mexico, wildfires in California
2016	750	8,700	175,000	50,000	Earthquakes in Japan, hurricane Matthew, forest fires in Canada
2015	730	25,400	103,000	32,000	Earthquake in Nepal, winter weather damage in the USA and Canada, winter storm Niklas, floods in the United Kingdom
2014	980	7,700	110,000	31,000	Cyclone Hudhud, winter weather damage in Japan, the USA and Canada, floods in India and Pakistan, storm Ela
2013	920	21,000	140,000	39,000	Floods in Central Europe and Canada, hailstorms in Germany, storms Christian and Xaver, tornadoes in the USA
2012	920	10,000	173,000	65,000	Hurricane Sandy, drought in the USA, earthquake in Italy, severe weather and tornadoes in the USA, Hurricane Isaac
2011	820	27,000	380,000	105,000	Earthquakes in Japan and New Zealand, floods in Thailand, tornadoes in the USA, Hurricane Irene
2010	970	296,000	152,000	60,000	Earthquakes in Haiti, Chile and China, heatwave in Russia, floods in Pakistan, volcanic eruption in Iceland
2009	900	11,000	60,000	22,000	Winter storm Klaus, tornadoes in the USA, hail storms in Central Europe

Source: Based on Munich Re NatCatSERVICE data

attributable to severe storms and tornadoes in North America; see Table 3 (“The five biggest natural disasters in the first half of 2019 measured by insured loss” on page 10). Winter storm Eberhard, which swept across Western Europe at the beginning of March, was the biggest natural disaster, causing overall economic losses of US\$1.2 billion, of which US\$0.9 billion were insured due to the high insurance density of windstorm coverage.

In the summer of 2019, many regions of the world experienced unusual heatwaves causing droughts and wildfires. In Germany, June 2019 was the hottest June since records began. Severe thunderstorms with violent hailstorms produced heavy losses throughout Europe. The drought led to high losses from poor harvests in parts of the agricultural sector. Wildfires in the largest forests of the world (Amazon rainforest, taiga), which are vital to global climate stability, reached previously unknown extremes and fuelled concerns of an even greater acceleration in the rate of climate change.

The second half of the year usually brings higher losses due to the hurricane season, which lasts until November. In 2017, hurricanes including “Harvey”, “Irma” and “Maria” caused record losses of approximately US\$350 billion for the economy as a whole and approximately US\$140 billion for the insurance industry.

The rather moderate amount of losses incurred during the first half of 2019 enhanced the reinsurers’ resilience, which had been weakened by the high losses of the two previous years. Only little relief, however, came from the premium trend in 2018 and 2019: in the traditional reinsurance cycle, severe natural disasters are usually followed by substantial premium increases to compensate for high claims expenditures. In spite of the record losses in 2017, however, the latest figures do not seem to follow this cycle. Whereas some of the regions and classes of insurance with high claims expenditures saw two-digit premium increases, premiums in other markets and insurance classes remained fairly stable.

Table 3: The five biggest natural disasters in the first half of 2019 measured by insured loss

Date	Region	Event	Fatalities	Overall losses (US\$m)	Insured losses (US\$m)
17–31 May 2019	USA	Severe storm, tornado	9	3,300	2,500
23–26 February 2019	USA, Canada	Severe storm, tornado	2	1,600	1,100
23–25 March 2019	USA	Severe weather	–	1,300	1,000
26 January–10 February 2019	Australia	Flood	3	1,900	900
9–11 March 2019	Europe	Winter storm Eberhard	4	1,200	900

Source: Munich Re NatCatSERVICE.

Considering the market as a whole, this sideways movement of reinsurance premiums also continued in 2019.

The unusual trend in premiums that followed the record losses of 2017 is due to an oversupply of capacity. Neither reinsurers nor investors in the alternative reinsurance market (ART market) reduced capacity in 2018. The ART market remained at a high level in 2019, even though investors curbed their activities slightly. Factors contributing to the popularity of the ART market are not only the relatively attractive yields, but also the comparatively low correlation between insurance risk and market risk.

Both the newly issued catastrophe bonds and the catastrophe bonds currently outstanding (*insurance-linked securities* – ILS) set a new record at US\$13.9 billion

and US\$37.6 billion respectively at the end of 2018. Until the end of the third quarter of 2019, ILS in the amount of US\$7.7 billion were issued. At US\$40.0 billion, the aggregate value of catastrophe bonds currently outstanding once again set a new record.⁶

According to Aon Benfield, the ART market had a volume of approximately US\$93 billion as at the end of the second quarter of 2019 and made up around 15.2% of the entire reinsurance market.⁷ Collateralised reinsurance accounted for the largest share, followed by ILS.

6 ARTEMIS: Q3 2019 Catastrophe Bond & ILS Market Report.

7 AON Benfield: Reinsurance Market Outlook September 2019.

II

Statistical evaluation for 2018





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The editorial deadline for the reinsurance statistics presented here was 22 October 2019. Subsequent assessments, additional reports and corrections to figures may lead to ex post changes. Any changes to prior-year figures in the following tables are due to subsequent corrections.

The time lag between the year under review, 2018, and the publication of BaFin's reinsurance statistics limits the informative value of this snapshot analysis and does not permit any conclusions to be drawn about the current situation.

The report on the statistics for financial year 2018 and 2017/2018 includes the data of 29 reinsurers (previous year: 29) and one branch of a third-country reinsurer. Most of them are stock corporations, one is a mutual insurance association (*Versicherungsverein auf Gegenseitigkeit*) and two are insurance undertakings under public law.

The data in the tables below are based on industry revenue. This figure is the total of the templates submitted by the reinsurance undertakings, calculated for each insurance segment. This not only allows for all the values to be reconstructed at any time, but also

enables additional (consistent) data to be retrieved from the data sets if needed.

A disadvantage of this approach is that – depending on the templates actually submitted – the number of reporting reinsurance undertakings may differ from table to table. As far as the industry data are concerned, however, this does not have any significant impact, because these data are only published after all the relevant undertakings have submitted correct data, thus ensuring completeness at all times.

“Solvency II”, the new supervisory regime, entered into force on 1 January 2016. One of the advantages of Solvency II is the fact that reinsurance undertakings are now required to submit their reports much earlier than before. The reporting deadline for insurance and reinsurance undertakings is identical. The statistics on reinsurance undertakings are therefore prepared and published prior to the end of the year after the reporting year.

The statistical evaluation covers almost exclusively data that are based on the Solvency II supervisory regime. Nevertheless, BaFin continues to collect data (forms and statements under the German Insurance Reporting Regulation (*Versicherungsberichterstattungs-*

Verordnung – BerVersV) based on the accounting principles under the German Commercial Code (*Handelsgesetzbuch – HGB*), not least for statistical purposes. For the sake of completeness, these data – without explanations – will be published on BaFin’s website in the spring of 2020 in the usual format.

1 Premiums

Reinsurance coverage is offered not only by reinsurance undertakings, but also by primary insurers engaging in reinsurance business. The breakdown of the total gross inward reinsurance premiums between reinsurers and primary insurers is shown in Table 4 (“Gross premiums in reinsurance business”):

In the year under review, gross premiums written by reinsurance undertakings rose slightly to €60.3 billion. This means that premium income changed very little in the period from 2015 to 2018, which corresponds to the period of soft market conditions.

In the period from 2008 to 2015, however, gross premiums written rose by more than half. At the same time, the number of reporting reinsurance undertakings decreased from 41 undertakings in 2008 to 30 in reporting year 2018. This indicates that the reinsurance industry is becoming more concentrated: in 2018, the three reinsurance undertakings with the highest premium volumes reported more than three quarters of all premiums.

The sustained high level of premiums collected in 2018 is likely to have been driven by factors including the continued robust growth in demand in the primary insurance markets in emerging economies, especially

for property and casualty insurance. Personal insurance companies in particular still had strong demand for reinsurance as a capital substitute, not least because of the sustained period of low interest rates.

Premium income for inward reinsurance business for primary insurers increased by 16.0% in the year under review. This was due to an industrial insurer significantly expanding its business operations in line with its strategy. The proportion of the total inward reinsurance business accounted for by reinsurers thus decreased in 2018 to 88.5%. Of the primary insurance undertakings, 117 engaged in active reinsurance, 27 of which were life insurers, 7 health insurers and 83 property/casualty insurers.

In 2018, reinsurance business accepted from domestic ceding insurers decreased by around 4.6%. Gross premiums written amounted to €14.5 billion (previous year: €15.2 billion), whereas in 2002, the level of premiums was significantly higher at €21.7 billion.

Reinsurance business accepted from foreign ceding insurers rose slightly in 2017 (by 2.8%). Gross premiums written amounted to €45.8 billion. Overall, the share of reinsurance business accepted from foreign ceding insurers increased from 74.6 % in the previous year to 75.9% in 2018. Ten years ago, reinsurance business accepted from foreign ceding insurers accounted for less than two thirds.

Measured in terms of gross premiums written, insurance business accepted from abroad by all domestic insurance undertakings (primary insurers and reinsurance undertakings that fall within the supervisory scope of Solvency I or Solvency II) in 2018 (€47.5 billion) again significantly exceeded insurance business ceded abroad (€20.1 billion). This means that, as in previous years, domestic insurers made available more capacity

Table 4: Gross premiums in reinsurance business

Year	Gross premiums written (€m)		
	Reinsurance undertakings	Primary insurers (inward reinsurance business)	Total
2018	60,340.3	7,837.5	68,177.8
2017	59,741.2	6,757.5	66,498.6
2016	59,510.6	6,049.4	65,560.0
2015	59,434.5	6,185.9	65,620.4
2014	52,478.5	5,684.9	58,163.4

to the international reinsurance market than they used themselves. The positive contribution to Germany's balance of trade in services decreased from €30.7 billion in the previous year to €27.0 billion in the year under review, 2018. These are preliminary figures based on the data collected in accordance with the HGB and are still subject to minor changes.

Of the gross premiums written by reinsurers, €3.0 billion was attributable to facultative and €56.6 billion to obligatory reinsurance business. At 79.0% (previous year: 76.3%), proportional reinsurance in the form of quota share and surplus treaties continued to make up the largest proportion of gross premiums written. These

are preliminary figures based on the data collected in accordance with the HGB and are still subject to change.

Table 5 gives a breakdown of the reinsurers' gross premiums written by line of business under the Solvency II supervisory regime.

As in previous years, the largest share of the reinsurers' premium income in 2018 was attributable to fire and other damage to property insurance (€13.6 billion or 22.5% of contributions); this was followed by life reinsurance (16.7%), motor vehicle liability insurance (12.3%), other motor insurance (8.8%) and non-proportional property reinsurance (8.3%). While the

Table 5: Gross premiums by lines of business

Line of business ¹⁾	Gross premiums written			
	2018		2017	
	€m	%	€m	%
Medical expenses	873.9	1.4	845.4	1.4
Income protection	1,142.3	1.9	1,294.0	2.2
Workers' compensation	150.4	0.2	224.1	0.4
Motor vehicle liability	7,448.7	12.3	6,776.3	11.3
Other motor	5,329.9	8.8	3,880.9	6.5
Marine, aviation and transport	1,632.3	2.7	1,640.9	2.7
Fire and other damage to property	13,586.7	22.5	12,582.7	21.1
General liability	4,619.6	7.7	4,318.8	7.2
Credit and suretyship	1,973.5	3.3	1,914.8	3.2
Legal expenses	432.6	0.7	382.7	0.6
Assistance	11.2	0.0	8.8	0.0
Miscellaneous financial loss	594.0	1.0	797.6	1.3
Proportional reinsurance	37,795.2	62.6	34,667.0	58.0
Health	267.2	0.4	290.6	0.5
Liability	2,251.3	3.7	1,928.8	3.2
Marine, aviation and transport	382.1	0.6	412.6	0.7
Property reinsurance	5,009.7	8.3	4,554.5	7.6
Non-proportional reinsurance	7,910.3	13.1	7,186.4	12.0
Non-life	45,705.5	75.7	41,853.3	70.1
Health	4,586.2	7.6	7,169.2	12.0
Life reinsurance	10,048.7	16.7	10,718.7	17.9
Life	14,634.8	24.3	17,887.8	29.9
Total	60,340.3	100.0	59,741.2	100.0

¹⁾ Lines of business as set forth in Annex I of Delegated Regulation (EU) 2015/35.

volume of premiums in health insurance declined significantly by 36.0%, dropping to the level of 2016, premium volumes in other motor insurance saw a strong increase of 37.3%. These fluctuations do not always mean that there were actual changes in premiums. Often they were due to changes in reporting under the new supervisory regime. In some cases, such changes were prompted by clarifications issued by BaFin.

In the year under review, the share of non-life insurance classes was 75.7% of the total volume of premiums, 82.7% of which was attributable to proportional reinsurance and 17.3% to non-proportional reinsurance. Life insurance classes accounted for 24.3% of all premiums.

Reinsurers ceded €10.9 billion (previous year: €8.9 billion) of their total gross premiums written of €60.3 billion (previous year: €59.7 billion) to retrocessionaires. As a result, the retrocession ratio amounted to 18.1% (previous year: 14.9%), which was accompanied by a decrease of approximately 3.8% in reinsurers' retentions.

2 Losses

Following unusually high losses in 2017, the reinsurers' claims expenditures returned to expected levels in 2018. Natural disasters are estimated to have caused overall economic losses of approximately US\$160 billion worldwide in 2018, which is significantly lower than the previous year's figure (US\$350 billion) and also below the average for the last ten years (US\$190 billion)¹. Of the overall economic losses caused by natural disasters in 2018, losses in the amount of US\$80 billion were insured, which is also lower than the previous year's figure (US\$140 billion). The ten-year average of US\$61 billion, however, was exceeded by approximately one third.

Of the insured losses caused by natural disasters, approximately US\$16.5 billion were attributable to the "Camp Fire" wildfire in California, which thus resulted in the highest losses for the insurance industry caused by a wildfire to date. 2018 not only saw several other wildfires but also hurricanes, with hurricane Michael and typhoon Jebi causing the highest losses. In Europe, too, severe storms ("Friederike" and "Burglind") were responsible

for high losses for the insurance industry (approximately US\$3 billion). Around two thirds of the losses occurred in Germany.

The decline in claims expenditures is reflected in the reinsurers' loss ratios. According to the data submitted in reporting template S.05.01, the reinsurers' gross loss ratio after settlement, measured as the ratio of expenses for claims incurred to premiums written, amounted to 67.4% in the year under review (previous year: 72.6%). The loss ratio for non-life insurance is more informative: on average, the reinsurance undertakings recorded a gross loss ratio of 66.4% (prior year: 71.6%). In non-proportional reinsurance, which is predominantly used for reinsuring peak risk, the gross loss ratio declined from 84.6% in 2017 to 59.9% in 2018. The net loss ratio for the non-life insurance classes as a whole decreased from 72.2% in 2017 to 66.8% in 2018.

The gross expense ratio continued to rise slightly in the year under review, 2018, and amounted to 28.5% (previous year: 28.0%).

Overall, the reinsurers' gross combined ratio after settlement amounted to 95.9% in the year under review (previous year: 100.6%). On a net basis, the combined ratio improved to 98.0% (previous year: 102.6%).

3 Technical provisions

Gross technical provisions amounted to €113.0 billion as at 31 December 2018. In terms of gross premiums written, this translated into a provision rate of 187.3% (prior year: 183.4%) for the business as a whole. For the composition of technical provisions in the year under review and in 2017, see Table 6 (page 17).

At €86.9 billion, or 76.9% of total gross technical provisions, claims provisions were by far the most significant single item in the year under review. The provision rate, measured by the gross premiums of the non-life insurance classes, amounted to 190.0% (prior year: 198.7%).

In the year under review, the largest share of gross technical claims provisions was attributable to the following lines of business: proportional general liability insurance at €21.9 billion (25.2% of reinsurers' total gross claims provisions), non-proportional liability insurance at €20.1 billion (23.1%) and fire and other damage to property insurance at €12.5 billion (14.4%).

¹ Munich Re: Press release of 8 January 2019.

Table 6: Composition of technical provisions

	2018		2017	
	€m	%	€m	%
Non-life				
Provisions calculated as a whole	102.5	0.1	66.5	0.1
Gross premium provisions (best estimate)	6,499.3	5.8	5,398.1	4.9
Gross claims provisions (best estimate)	86,862.6	76.9	83,148.4	75.9
Risk margin	3,304.7	2.9	3,236.5	3.0
Provision as the sum of best estimate and risk margin	96,666.6	85.6	91,783.1	83.8
Total non-life (gross)	96,769.1	85.6	91,849.6	83.9
Total non-life (net)	84,910.6	82.7	81,736.6	80.7
Life				
Provisions calculated as a whole	13.3	0.0	4.6	0.0
Best estimate (gross)	12,016.1	10.6	13,448.7	12.3
Risk margin	4,193.9	3.7	4,235.2	3.9
Provision as the sum of best estimate and risk margin	16,210.0	14.3	17,683.8	16.1
Total life (gross)	16,223.4	14.4	17,688.4	16.1
Total life (net)	17,751.2	17.3	19,587.3	19.3
Total technical provisions (gross)	112,992.5	100.0	109,538.0	100.0
Total technical provisions (net)	102,661.8	100.0	101,323.9	100.0

Table 7 (page 18) gives a breakdown of the reinsurers' gross claims provisions by line of business under the Solvency II supervisory regime.

More than two thirds of total gross provisions for claims outstanding were attributable to non-proportional reinsurance, whereas the share of non-proportional reinsurance in premium income was only slightly more than one-sixth of non-life contributions. Non-proportional reinsurance is used, in particular, to reinsure peak risks and long-term liability risks, which makes it necessary to recognise large provisions.

The high market concentration in the reinsurance industry also becomes evident when looking at the provisions for claims outstanding. As at 31 December 2018, almost 80% of the total gross provisions for claims outstanding was attributable to the three largest reinsurance undertakings and just under 90% was attributable to the five largest reinsurers.

Non-life insurance classes accounted for 85.6% of the reinsurers' technical provisions including premium provisions, risk margin and provision calculated as a whole. Life insurance classes accounted for 14.4% accordingly.

The technical provisions under Solvency II amounted to approximately 70% of the technical provisions under HGB accounting. This is because, firstly, due to the principle of prudence, some reinsurers' technical provisions under the HGB include very large reserves and, secondly, Solvency II does not provide for an item equivalent to the HGB equalisation provision. Both aspects cause the reinsurers' own funds to increase considerably (see chapter 5).

Table 7: Gross claims provisions by line of business

Line of business ¹⁾	Gross claims provisions			
	2018		2017	
	€m	%	€m	%
Medical expenses	327.0	0.4	299.4	0.4
Income protection	1,061.5	1.2	1,035.3	1.2
Workers' compensation	1,014.2	1.2	951.9	1.1
Motor vehicle liability	9,587.6	11.0	7,710.0	9.3
Other motor	1,401.1	1.6	1,305.0	1.6
Marine, aviation and transport	2,814.6	3.2	3,039.9	3.7
Fire and other damage to property	12,463.6	14.4	11,778.8	14.2
General liability	21,916.9	25.2	20,616.8	24.8
Credit and suretyship	2,700.3	3.1	2,671.8	3.2
Legal expenses	416.9	0.5	381.6	0.5
Assistance	1.6	0.0	1.8	0.0
Miscellaneous financial loss	521.6	0.6	613.8	0.7
Proportional reinsurance	54,226.9	62.5	50,406.1	60.6
Health	2,118.8	2.4	2,261.9	2.7
Liability	20,052.8	23.1	20,677.1	24.9
Marine, aviation and transport	1,361.7	1.6	1,591.2	1.9
Property reinsurance	9,043.0	10.4	8,212.2	9.9
Non-proportional reinsurance	32,576.3	37.5	32,742.3	39.4
Total	86,803.2	100.0	83,148.4	100.0

¹⁾ Lines of business as set forth in Annex I of Delegated Regulation (EU) 2015/35.

4 Investments

As at 31 December 2018, investments held by reinsurance undertakings amounted to €346.5 billion in total (previous year: €349.6 billion). This is approximately equal to the fair value of investments under HGB accounting.

For the composition of investments in the year under review and in 2018, see Table 8 (page 19).

Almost two thirds of the investments were attributable to affiliates and equity investments. For the insurance industry as a whole, however, this share is less than 20.0%. The reason for this lies in one of the characteristics of the German insurance industry: some of the major reinsurers in Germany perform, at the same

time, the function of a holding company for an insurance group or financial conglomerate. The five biggest holding companies and financial conglomerates alone held approximately four fifths of the reinsurers' total investments. Other major investments were corporate and government bonds, which represented a share of 12.8% and 12.9% of the total investments respectively. In contrast, reinsurance undertakings invested very little in shares (1.1%).

In 2018, there was a rise in investments in loans and mortgages, whereas investments in investment funds and shares decreased. These changes were not always the result of an actual restructuring of the undertakings' portfolios. Often they were due to changes in the reporting of investments under the new supervisory regime. In some cases, such changes were prompted by clarifications issued by BaFin.

Table 8: Composition of investments

Investment classes ¹⁾	2018		2017	
	€m	%	€m	%
Affiliates and equity investments	220,677.6	63.7	219,559.8	62.8
Shares	3,749.1	1.1	4,659.2	1.3
Government bonds	44,714.2	12.9	45,261.8	12.9
Corporate bonds	44,511.4	12.8	46,622.3	13.3
Investment funds	13,921.8	4.0	15,442.9	4.4
Other investments	10,239.9	3.0	10,524.9	3.0
Total investments	337,644.4	97.4	342,070.9	97.9
Loans and mortgages	8,897.9	2.6	7,487.8	2.1
Total investments	346,542.3	100.0	349,558.7	100.0

¹⁾ In accordance with the solvency statement and excluding the investments for index-linked and unit-linked contracts.

Given the vulnerability of insurance undertakings to unforeseeable (extreme) developments on the capital markets – in particular declines in the prices of shares and investment funds accompanied simultaneously by low interest-rate levels – BaFin is keeping a particularly close watch on the impact on the insurance undertakings' economic situation overall.

5 Solvency

As at 31 December 2018, the reinsurance undertakings had own funds amounting to approximately €212.6 billion (previous year: €212.5 billion). Table 9 (page 20) shows the composition of the reinsurers' own funds for the year under review and the previous year.

Approximately two thirds of own funds consist of the reconciliation reserve and one third of other own-fund items. Compared with the previous year, there was a slight increase in subordinated capital and a corresponding decrease in the reconciliation reserve.

The reconciliation reserve ultimately represents the residual amount of the surplus of recognised assets in relation to the recognised liabilities that cannot be allocated to any own-fund item in accordance with the provisions of the HGB. It is the result of value differences between the commercial balance sheet and the supervisory balance sheet. In the year under review, 32.3% of the reconciliation reserve was attributable to value differences in the technical provisions, while 61.1%

resulted from value differences in investments. Due to the mark-to-market or market-consistent valuation of investments and technical provisions, the value differences are also subject to daily market fluctuations. Annual fluctuations in the reconciliation reserve are therefore not unusual.

Although the other own-fund items are considerably more stable, the disclosure of equity items under HGB provisions is nevertheless artificial and, essentially, alien to the system because it ultimately involves the disclosure of parts of the asset surplus, which as a whole is subject to market fluctuations.

As at 31 December 2018, own funds eligible to cover the minimum capital requirement (MCR) amounted to €198.4 billion (previous year: €199.3 billion), which is 93.3% of the own funds eligible to cover the solvency capital requirement (SCR).

Even though reinsurance undertakings only represent just over 8% of all insurers in terms of numbers, they nevertheless account for around 45% of the own funds of the entire insurance industry. As already mentioned above, in many cases this is due to the dual function of reinsurance undertakings: they also perform the function of a holding company for an insurance group or a financial conglomerate. In such cases, the reinsurance activities are frequently subordinated to the holding company function and this is reflected, among other things, in more than adequate capital resources from the point of view of the reinsurance activities.

Table 9: Composition of own funds

Own-fund items	2018		2017	
	€m	%	€m	%
Ordinary share capital	4,437.88	2.1	4,438.5	2.1
Capital reserves	43,017.38	20.2	42,924.8	20.2
Reconciliation reserve	143,786.30	67.6	144,899.7	68.2
Subordinated capital	19,947.09	9.4	18,883.3	8.9
Other items	1,403.43	0.7	1,312.8	0.6
Eligible own funds to cover the SCR	212,592.09	100.0	212,459.2	100.0

As at 31 December 2018, the SCR for reinsurance undertakings amounted to approximately €64.1 billion (previous year: €63.1 billion). The MCR slightly increased from €20.2 billion in 2017 to €20.7 billion in the year under review. The MCR thus continues to account for approximately one third of the SCR.

Of the 30 reinsurance undertakings, 24 calculated their SCR using the standard formula. This corresponds to 80% of all reinsurance undertakings; across the insurance industry as a whole, 90% use the standard formula. This means that one in five reinsurance undertakings uses the option of an internal model approved by BaFin. These six undertakings account for roughly 90% of all premiums and 90% of all technical provisions. A representation of the composition of the SCR based on the standard formula modules is therefore not very meaningful.

Irrespective of this, the most important risk driver by far is market risk, which represents approximately three quarters of the basic SCR of the undertakings that used the standard formula. Underwriting risk for non-life insurance is also important, representing roughly one third of the basic SCR, which, in turn, is reduced by 22% by risk-mitigating diversification effects. All other risks are of secondary importance. The dominant role of market risk is due to the great influence of holding companies in the reinsurance industry. In addition, as these are often larger holding companies, market risks are also the dominant risk when looking at the industry average for reinsurers.

All in all, average SCR coverage amounted to approximately 331.4% as at 31 December 2018 (previous year: 336.9%). The MCR coverage ratio rose slightly from 984.6% in 2017 to 957.1% in the year under review.

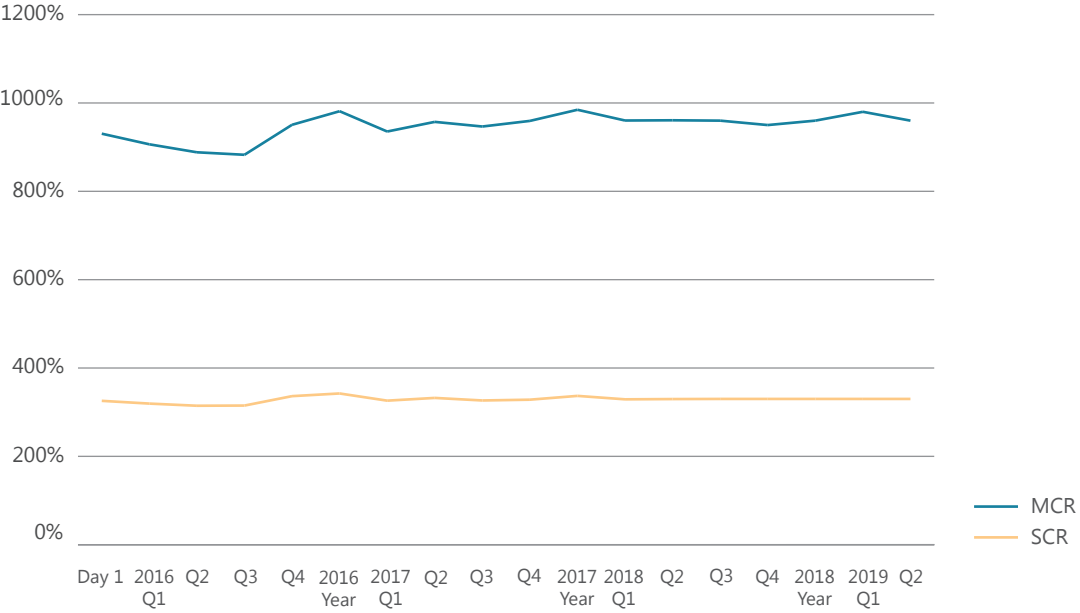
The range of the coverage ratios within the reinsurance sector is considerable, especially with respect to the MCR. As at 31 December 2018, the reinsurers reported SCR coverage ratios between 124.1% and 567.2% and MCR coverage ratios between 121.1% and 2268.8%.

The wide range of the coverage ratios reflects the heterogeneous nature of the reinsurance sector, which is small in terms of the number of companies. In addition to reinsurers with regional and international operations, the sector also includes captive insurers, run-off platforms and some reinsurance undertakings that also perform the function of a holding company for an insurance group or a financial conglomerate. Ultimately, the function of the reinsurance undertaking also influences its capital resources.

Over time, the range of coverage ratios remains relatively constant. This is also true for the average coverage ratios of reinsurance undertakings as shown in Figure 1 (page 21).

In the period under review, the reinsurers' average SCR coverage ratio fluctuated within a relatively narrow range of between 314.6% and 342.4%.

Chart 1: Quarterly development of the average coverage ratios



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